

SENATE FINANCE COMMITTEE

May 10, 2021

9:18 a.m.

9:18:34 AM

CALL TO ORDER

Co-Chair Bishop called the Senate Finance Committee meeting to order at 9:18 a.m.

MEMBERS PRESENT

Senator Click Bishop, Co-Chair
Senator Bert Stedman, Co-Chair
Senator Lyman Hoffman
Senator Donny Olson
Senator Natasha von Imhof
Senator Bill Wielechowski
Senator David Wilson

MEMBERS ABSENT

None

ALSO PRESENT

Senator Shelley Hughes, Sponsor; Buddy Whitt, Staff,
Senator Shelley Hughes.

PRESENT VIA TELECONFERENCE

David Schade, Director, Division of Agriculture, Eagle River.

SUMMARY

SB 27 INDUSTRIAL HEMP PROGRAM;MANUFACTURING

CSSB 27(RES) was REPORTED out of committee with a "no recommendation" recommendation and with one new fiscal impact note from the Department of Natural Resources.

HB 69 APPROP: OPERATING BUDGET/LOANS/FUNDS

HB 69 was SCHEDULED but not HEARD.

HB 71 APPROP: MENTAL HEALTH BUDGET

HB 71 was SCHEDULED but not HEARD.

HB 117 EXTEND BOARD OF DIRECT-ENTRY MIDWIVES

HB 117 was SCHEDULED but not HEARD.

HB 126 EXTEND BOARD OF PUBLIC ACCOUNTANCY

HB 126 was SCHEDULED but not HEARD.

#sb27

SENATE BILL NO. 27

"An Act relating to industrial hemp; and providing for an effective date."

9:19:01 AM

Co-Chair Bishop noted that the committee would hear SB 27, and all other bills listed on the agenda would not be heard. He intended to hear the bill introduction, take public testimony, review the fiscal note, and look to the will of the committee.

9:19:49 AM

SENATOR SHELLEY HUGHES, SPONSOR, thanked the committee for hearing the bill. She relayed that the bill was time sensitive. She referenced changing regulations at the U.S. Food and Drug Administration and farm bills being passed. She thought it was important for the issue to be updated in Alaska. She thought it was good news for the state that the bill proposed to change the industrial hemp industry from a pilot program to a permanent program, which would be positive for investment opportunities. She mentioned the benefit of interstate commerce of hemp products.

9:21:14 AM

BUDDY WHITT, STAFF, SENATOR SHELLEY HUGHES, discussed a Sectional Analysis (copy on file):

Section 1 - AS 03.05.010(a) - Page 1, Line 3 through
Page 3, Line 8

Two subsections added to this section authorizing the commissioner of the Department of Natural Resources to include the manufacturing and retail sales of products made from industrial hemp, as well as registration and renewal procedures, in the regulations for the industrial hemp program.

Section 2 - AS 03.05.010(c) - Page 3, Lines 9 through 15

Amends AS 03.05.010(c) to allow that the Commissioner of the Department of Natural Resources may issue a stop sale order to a person found to be producing industrial hemp over 0.3 delta-9-tetrahydrocannabinol. Precious language was overly restrictive and did not allow the department to work with a good actor to recondition their crop. The new language allows the department to determine whether someone was acting in good faith or not prior to issuing the stop order.

Mr. Whitt explained that the previous language had been overly restrictive and did not allow the department to work with good actors to recondition crops. The new language allowed the department to determine whether someone was acting in good faith prior to issuing a stop order.

Section 3 - AS 03.05.076(a)

Page 3, Lines 16 through 31

Adds language that a registrant for the industrial hemp program is not eligible if they had been convicted of a felony involving a controlled substance within the last ten years. This section is added to comply with provisions of the 2018 Farm Bill.

Section 4 - AS 03.05.076(i)

Page 4, Lines 1 through 4

Adds that the department may develop an industrial hemp program that complies with federal requirements and submit a plan for the program to USDA for approval.

Section 5 - AS 03.05.079 - Page 4, Line 5 through 11

A grower may retain and recondition their crop if it tests above .3% but below 1.0% THC.

Section 6 - AS 03.05.079(b) - Page 4, Lines 12 through 14

A new subsection adds that a person who retains but fails to recondition is guilty of a violation.

Mr. Whitt explained that Section 4 was new language added to conform to language in Section 2 regarding stop sale orders. Section 5 was a new section that allowed the department to comply with United States Department of Agriculture (USDA) guidelines. He explained that Section 6 made a small change that brought sections into congruence. He continued to address the Sectional Analysis:

Section 7 - AS 03.05.100(5) - Page 4, Lines 15 through 21

Changes the statutory definition of industrial hemp to match the federal definition which was changed in the 2018 Farm Bill.

Section 8 - Page 4, Line 22

Repeals AS 03.05.077 the Industrial Hemp Pilot Program

Section 9 - Page 4, Lines 23 through 31

Conditional effect for Section 8 of the bill, in that the Pilot Program statute is repealed when the Industrial Hemp Program developed by the department is approved by the USDA.

Section 10 - Page 5, Lines 1 through 3

Effective date language stating that if section 8 is repealed under the conditions of section 9, the effective date of section 8 is the day after notice is received by the reviser of statutes by the Commissioner of Natural Resources.

[9:25:20 AM](#)

Senator Hughes wanted to comment on the time sensitivity of the bill. She relayed that the switch from the pilot program to the permanent program had originally had a deadline of October 2020, and after the COVID-10 pandemic the deadline was extended to October 2021.

Co-Chair Bishop noted that Senator Hughes had been working on the subject for quite some time. He asked if she sponsor could provide anecdotal evidence about how the program had been received in the agricultural community.

Senator Hughes had heard from the Division of Agriculture that there had never been as many inquiries on any single crop as there had for hemp. She knew that when a program went from a pilot to a permanent program, there was often greater interest.

Co-Chair Bishop asked how the crop was reconditioned to get it into compliance.

Mr. Whitt thought there was invited testimony that could speak to Co-Chair Bishop's question.

[9:27:07 AM](#)

DAVID SCHADE, DIRECTOR, DIVISION OF AGRICULTURE, EAGLE RIVER (via teleconference), explained that reconditioning involved mixing a product that was slightly over the .03 percent tetrahydrocannabinol (THC) level with product that was slightly less than the limit for a product that would come under the legal limit.

Co-Chair Bishop asked if the process "watered down" the product.

Mr. Schade explained that the process involved making a bigger batch that was homogenized so that the percentage of THC would be below the legal limit.

Senator Wielechowski asked how many individuals were taking part in the current pilot program.

Mr. Schade noted that the program was based on the calendar year. He recalled that the previous year there had been 9 growers with 70 acres and 9000 square feet of indoor space. There were two processors, and he estimated that there had been roughly 50 retail registrants. He thought the numbers had roughly doubled. He thought there was a forthcoming additional 20 producers, 2 manufacturers, and a significant increase in registrants in the retail side. He noted that with the program becoming permanent there could be an additional 2,000 to 2,500 retail applicants. He thought the program had created a lot of excitement because of the COVID-19 pandemic.

Senator Wielechowski noted that the fiscal note projected 2,000 to 3,000 applicants per year. He thought the amount seemed rather high.

Mr. Schade reminded that the projection included retail sales. He explained that any product, including cannabidiol (CBD), required registration, and there were CBD sales through almost every town and village in the state. He relayed that the division had been handing out literature around the state and encouraged people to become a permanent part of the program. He affirmed that the division would be ramping up its enforcement. He cited that industrial hemp was a multi-billion industry in the United States, and even larger throughout the world.

9:30:11 AM

Senator Wielechowski wondered about the funds to run the program if the applicants only added up to 1,000 per year.

Mr. Schade explained that the division would not be hiring people until funds were available. He believed there would be significant income coming in and there was a good profit margin on the product. He was aware of the need for budget constraints.

Co-Chair Bishop recalled that industrial hemp could be used in concrete. He asked if a concrete supplier would need to register in order to use the material in its product.

Mr. Schade explained that if the concrete supplier was buying hemp from a registered retailer, no further registration would be needed.

9:32:03 AM

Senator Wielechowski did not see a fiscal note for increased general fund revenue from taxes on the product. He asked if Mr. Schade anticipated any additional revenue from sales of industrial hemp.

Mr. Schade noted that hemp was an agricultural crop that did not involve additional taxes beyond the normal business license, taxes, and fees.

Senator Wielechowski referenced the tax on marijuana. He asked if tax revenue generation was being contemplated.

Mr. Schade deferred to the sponsor.

Senator Hughes stated that since industrial hemp was separated from marijuana, an additional tax had not been contemplated.

Senator Wielechowski asked for the department's thoughts on taxation of industrial hemp since marijuana was taxed somewhat heavily.

Mr. Schade stated that the department did not believe it would be appropriate to additionally tax the product, which was an agricultural crop. He thought the increased economic vitality of the state was driving the bill. He noted that SB 6, the original bill, was a self-sustaining program, which the department thought was appropriate.

Senator Wielechowski was curious if other states had received revenue from hemp production.

Mr. Schade was not aware of any state that had put an additional excise tax on marijuana greater than any other agricultural product.

Co-Chair Bishop asked about the crop rotation with hemp.

Mr. Schade believed that hemp would be used with crop rotation. He thought the division's state agronomist could speak to specifics.

Co-Chair Bishop stated he would call and get the answer at another time.

Mr. Schade thought industrial hemp needed to have crop rotation and noted that the crop drew heavy metals and other nutrients from the soil. He emphasized the care was needed as with any other crop.

[9:36:09 AM](#)

Co-Chair Bishop OPENED public testimony.

[9:36:19 AM](#)

Co-Chair Bishop CLOSED public testimony.

Co-Chair Bishop discussed a new fiscal impact note from the Department of Natural Resources, OMB Component 455. There was \$736.4 thousand per year in total yearly operating

costs. Additional staff would be brought on as needed as the project grew. The department projected 2,000 to 3,000 applications from the farmer to the retailer. Personal services costs included a Natural Resource Manager I at range 18, an Agricultural Inspector at range 16, and an Administrative Assistant I at range 12.

Co-Chair Stedman MOVED to report CSSB 27(RES) out of Committee with individual recommendations and the accompanying fiscal note. There being NO OBJECTION, it was so ordered.

CSSB 27(RES) was REPORTED out of committee with a "no recommendation" recommendation and with one new fiscal impact note from the Department of Natural Resources.

9:38:10 AM

AT EASE

9:38:47 AM

RECONVENED

Co-Chair Bishop noted that there was no meeting scheduled for the afternoon. The following days agenda included bills previously heard.

#

ADJOURNMENT

9:39:01 AM

The meeting was adjourned at 9:39 a.m.